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SMEs' DETERMINANT FACTORS IN CHOOSING ISLAMIC FINANCING

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Abstract

This study investigates the determinant factors of SMEs in choosing financing from Baitul Maal wat Tamwil (BMT) as one of Islamic financing modes in West Sumatera. Moreover, this study also determines the important level of key factors which influenced the SMEs in choosing their Islamic financing. This research has been conducted in West Sumatera and the population of this study is all SMEs which used or potentially to use BMT financing. However, because the number of population is unknown, this study collected the data from 300 SMEs by using Cochran's formula to calculate the number of sample. In addition, to analyze the data, this research deployed exploratory factor analysis (EFA) and analytical hierarchy process (AHP) as the analysis tools. The results found 12 determinant factors for SMEs in choosing financing from BMT, including profit sharing systems, proximity to the customers, service quality, customer cost, service charges, risks and benefits, repayment methods, fund installment, funding submission process, service schedule, training for customer and interest-free loans. Furthermore, by using AHP analysis this study found the level of importance of 12 factors respectively, including fund installment, repayment methods, risks and benefits, interest-free loans, funding submission process, training for customer, service schedule, profit sharing systems, service quality, proximity to the customer, the customer cost and service charges.

Keywords: Profit sharing system; service schedule; training for customer; service charges;BMT

INTRODUCTION

The presence of Baitul Maal wa Tanwil (BMT) as a non-bank microfinance institution is expected to be more accessible by the public in West Sumatera. The number of SMEs in West Sumatera is relatively large, however, they are facing the lack of capital. On the other hand, people in West Sumatera generally embraced Islam (99%) and the culture of West Sumatera society which is familiar with "Adat Basandi Syarak, Syarak Basandi Kitabullah" (ABSSBK). BMT in West Sumatera continued growth in the number and effort. The number of BMT in this area has exceeded 150 BMTs (West Sumatera in 2010 figures). Furthermore, West Sumatera is one of the provinces whose economies are highly depending on SMEs. More than 90 % of business entities in this province are SMEs. SMEs have a very important role in creating jobs, encouraging innovation and economic growth in West Sumatera. SMEs in West Sumatra are the backbone of the economy. The business sector is able to absorb more than 90 % of the workforce in this area. However, the development of SMEs is still facing many obstacles and constraints. Generally all SMEs deal with the problem of capital. Moreover, more than 85 % of SMEs in this region are unable to access Bank capital (non-bankable). The inability of SMEs has been affected by various factors such as

their inability to meet the required bank collateral. Accordingly, the development of SMEs is still getting a lot of problems, for example: (a) low productivity, (b) lack of access to sources of capital, technology, markets and information, (c) non-conducive business environment (Sijabat, 2008, 4). Furthermore, research by Winarni and Simatupang (Ariel et al., 2012) found that SMEs are still having problems: lack of capital, difficulties in marketing, simple organizational structure, low management quality, limited and unqualified human resources, most of them do not have the financial statements, legality aspect is weak, and the poor quality of technology.

The description of condition above shows that on the one hand, the existence of SMEs is very important in the economic development and as an income generating factor for this area. On the other hand SMEs are still dealing with the problem that they can not be solved by themselves. One of the problems faced by each SMEs is limited and low access to capital resources. If this condition is continually allowed, it will affect the existence of SMEs. They will be increasingly marginalized because they are getting weaker and more helpless in facing the rapid competition. In order to play a role in encouraging the development of micro and small enterprises (SMEs) in West Sumatera, BMT should be able to understand the needs of SMEs in particular to finance schemes and the services that they offer is suit with the needs of SMEs itself. The role of BMT is largely determined by its ability to distribute funds into the productive SMEs, so that the business community can thrive. Because of the characteristics of the SMEs entrepreneur are low education, lack of access to information resources and technology, then BMT should also be able to train the SMEs, so that the fund which is distributed can be used to develop their businesses. If they are not able to develop their business or decreasing continually, they will getting lost and ultimately affect to the existence of BMT as a non-bank financial institutions that conduct their business with profit sharing. Accordingly, this study investigates the key factors that determine the SMEs in choosing financing from BMT.

LITERATURE REVIEW

Funding and lending in BMT have been implemented in the form of *Wadi'ah and Mudarabah* principles. The principle of al-wadi'ah can be divided into *Al-wadi'ah Yad amanah* dan *Al-wadi'ah Yad Adh Dhamanah*. Application of the concept of *Al-wadi'ah Yad Amanah* in Islamic financial institutions are the parties that accept deposits are not allowed to use and harness money and goods which is deposited, so it must be maintained in accordance with the norm. While the principle of *al-Adh wadi'ah Yad dhamanah* determines that the parties who accept deposits may use the deposit money or goods which is entrusted (Bank) and the Bank in this case getting profit sharing from the users of capital. Banks can give bonuses to the depositor (Hamdan and Wijaya; 2006). A survey that has been conducted in West Java indicate that 62% of respondents stated that interest against the Islamic principles, while 22% did not contradictory and the remaining 16% undecided (Rival et al. 2006). Furthermore, Irbid and Zarka (Rival, et al, 2006) provide different conclusions about the factors that encourage customers choose conventional banks or Islamic banks. The results of these studies support that the motivation of customers in selecting Islamic banks tend to be based on the profit motive, rather than religious motives.

Rival et al. (2006) have also found that the majority of respondents (81.5%) stated that the concept of interest is contrary to the Islam's rule. It is considered to be the most fundamental reason for the respondents in selecting Islamic banks. Furthermore, according to Dusuki and Abdullah, (2007) Islamic banks are run in accordance with Islamic principles which prohibited interest (*riba*). Various studies have shown that the main reason customers in choosing Islamic bank because it is accordance with the principles of Quran and Hadith. However, some studies which were conducted in Malaysia, UAE, and Kuwait found that the non-religious factors, such as efficiency, cost-benefit and other mutually with religion are the key factors of the customers in choosing the Islamic Bank (Dusiki and Abdullah, 2004; Ahmad and Haron, 2004; Kuehn and Bley, 2004). However Kaynak (2005) found three important attributes to be considered by customer in selecting a Bank, they are the availability of ATMs, fast and efficient service, and rapid response of Bank employees. Meanwhile, according to Ahmed, Rahman and Ahmed, (2006), Islamic Banks accept savings and deposits from customers in accordance with the principles of the *Al-Wadi'ah* and *Al-Mudharabah Shariah*. Furthermore, Mokhlis, (2009) found that the important factors in the selection of Islamic Banks in Malaysia are feeling secure during transactions, ATM services, financial benefits, service quality, and the location of the Bank.

Moreover, Farida (2007) found several factors affecting Islamic finance for agribusiness. These factors are the number of family dependents, business experience, business income, business scale, the

frequency of financing, installment period, knowledge of the contract, as well as the business sector. Based on her research, it is known that there are six significant variables, they are business scale, the installment period, the number of family dependents, business income, frequency of financing, and business sectors. In addition, Kurnia (2009) found seven factors which are suspected have an impact on the realization of Islamic finance for agribusiness sector. They are including business experience, business profit, the frequency of financing, profit sharing, years of education, the composition of capital, and the business sector. While Anggriawan (2010) found that there are four factors that influence the financing, including the profit/margin sharing ratio, the composition of venture capital, knowledge of the financing agreement/contract, and businesses sector that owned by the customer.

According to Aryati (2006), a financing at BMT can be assessed by several parameters, including the terms of debt, debt procedures, loan disbursements, the size of the administrative costs, the bank officer service, the location of the bank, guarantee/collateral, knowledge and participation of customer/prospective customers. Whilst, there are some factors which affect the amount of financing provided to the customers, including business net income, loan frequency, amount of arrears and installment period (Arsyad 2008). Furthermore, Cicic et al. (2004) found five factors that affect the attractiveness of the Bank, including bank receptionist, friendship employees, lower service costs, ease of opening an account, confidence in bank management. In addition, Haron, Nursofiza and Shafie (2004) also found that service quality is an important factor for customers in choosing a bank.

RESEARCH METHODOLOGY

The population of this research is all SMEs that have been funded by BMT and prospective SMEs which have not yet been funded but their location is around the operating area of the BMT. The sampling technique of this study is multistage sampling. There are some stages in the sampling process. *First*; we determined the number of districts/cities in West Sumatera, and then selected 8 districts/cities, including Agam, Tanah Datar, Padang Pariaman, Bukittinggi, Payakumbuh, Padang Panjang, Solok and Padang. *Second*; from 8 chosen districts/cities, we took 9 BMTs as the representative of BMT, including 2 BMTs in Agam and we took one BMT/district for other districts/cities. We decided to take 2 BMTs from Agam because this area has the highest number of BMT in West Sumatera. *Furthermore*, the population size is unknown, so then, this research used the Cohran's formula to calculate the number of sample.

The data which are collected in this study are the primary data and secondary data. The primary data is obtained by survey to respondents. Accordingly, this study employed questionnaires as the data collection tools. Moreover, the validity and reliability of the questionnaire have been tested by conducting pilot test on BMT in West Sumatera which is not selected as the object of this study. On the other hand, the secondary data is obtained by using documentation. Furthermore, to Analysis the data, this study employed exploratory factor analysis (EFA) and Analytical Hierarchy Process (AHP).

DATA ANALYSIS

Based on the results, this study found that there are 12 determinants of SMEs in choosing financing through BMT in West Sumatra, including installment / repayment of funds, repayment methods, risks and benefits, interest-free loans, funding submission process, customer training, service duration, profit sharing system, service quality, proximity to customers, customer sacrifice, and service charges.

1. Installment/Repayment

Based on the factor analysis, the first key determinant in choosing financing for SMEs is installment or repayment of fund which is used by micro and small entrepreneurs. Based on AHP, this factor has the highest Eigen values. This factor has three indicators, namely; term/installments duration, revenue forecasts, and frequency of payment. This factor is strongly associated with the seventh factor that is repayment method which is determined by BMT. Term of repayment time refers to the time that is given to the customer to return the funds that they are used. Accordingly, the longer of payback period, the smaller amount of funds should be paid, and vice versa. However, the frequency of payments is strongly associated with the number of repayment that must be made by the customer within a certain time, e.g., in a month.

Based on the results of factor analysis, we found the total amount of Eigen values for this factor is 1,253 and the variance as 3,212. It means that the contribution of factor installment/repayment in determine the SMEs in selecting financing through BMT was 1.25%. This indicates that the contribution of this factor in determining SMEs' decision in choosing financing through BMT in West Sumatera is relatively small. This condition indicates that, installment or repayment does not give sufficient contribution in determining SMEs' financing decision. However, the results of analysis by using AHP indicates that installment/repayment of funds is the most important factor that determines the SMEs' decision in choosing financing through BMT in West Sumatera. It is indicated by the largest Eigen value as 0.140. Accordingly, it means that installment/repayment is a major factor that determines SMEs' decision to find funding source of their business through BMT.

2. Repayment Method

The next important factor which is to be considered by SMEs in choosing BMT as the funding sources is the repayment method. According to the results of AHP, the repayment method that is used by BMT is the second important dimension in determining the SMEs in choosing BMT as their business financing source. Repayment method of is the way of repayment that is applied by BMT. Repayment can be done every day, every week, or every month. Small entrepreneur is generally getting trouble when the repayment is done for every month with a larger amount of money. Repayment method is closely related to the amount of any settlement payment by the customer. Based on the results of the analysis factor, the magnitude of the Eigen values for this factor is 1.496 with a variance of 3,835. Means the contribution of factors repayment method as determinant of SMEs choose financing through BMT was 3.84%. These factors have variant or contribution/number seven compared to other factors. It is indicate that micro and small entrepreneurs think that repayment methods has enough contribute to the determination of SMEs choose financing through BMT in West Sumatera. This condition can be understood as micro and small entrepreneurs feel in trouble if they have to pay a relatively large amount for any repayment. Therefore, they are generally prefer daily or weekly repayment. They also generally have difficulty in paying large amounts of money, It is difficult for SMEs to collect money in a large amount because their need is always urging all the times. Their income are relatively smaller than their needs, hence, it is causing the level of their ability to pay is relatively low.

Based on the results of Analytical Hierarchy Process (AHP), we found that the Eigen value of this factor is equal to 0.134. This indicates that repayment method is the second decisive for SMEs in order to choose funding institution. The results of this study inform that when SMEs need of funds, it is important for them to know what is the repayment method that is used? They desperately need a financial institution that establishes the right repayment method. They will prefer the longer repayment term,so that each payment will be in a smaller amount and by approaching them every day or week. This condition can be understood as micro-entrepreneurs have very little capital, so they can not afford to pay large amounts at once. Besides, it also repayment with large amounts at once would disrupt the composition of capital, thus threatening the survival of their businesses.

3. Risks and benefits

Risk and benefit factors describe the level of risk and benefit opportunities that may be received by the micro and small entrepreneurs in West Sumatera. Risk and benefit factors consist of payment procedures, risks that may occur, the frequency of coaching by BMT, and the profit opportunities that may be received by micro and small entrepreneurs. Payment procedures regarding the possibility of the term and unpaid funds which is used by SMEs. It is also involves the risk that may be suffered if the utilization of funds is not profitable. On the other hand the profit opportunities to be received if the funds are used provide benefit for SMEs. Based on the results of the factor analysis, we found the Eigen values of this factor is 1.570 and a variance of 4.025. It means that contribution of customer cost factor has 4.03% contribution in choosing financing through BMT. The variance or contribution of this factor is the 5th largest factors. From that amount of contributions, this factor is important to be considered by BMT management in West Sumatera. It means that customers always consider the risks and benefit that may be obtained by using that fund. Every business activities, even big or small will obtain risk and benefits. It is become a consideration for SMEs because they are unfamiliar with risky activities. Conventional financing models provide greater certainty than the concept of profit sharing. In profit sharing concept, the result can be known after business activities have been done for at least one year. While conventional

financing is relatively clear from the beginning, because businessman has been able to calculate the amount of money that they have to pay from their debt.

Based on the results of AHP, it is obtained Eigen value as 0.132. This factor was in third position compare to other factors. It means that the risk and benefit factors has the third most important factor that is determinate by SMEs in order to choose BMT as their resource of fund. This indicates on the one hand micro-entrepreneurs avoid the risk but on the other hand they are looking forward to even greater benefits. Meaning, they are in need of financial institutions as a source of funding with less risk and greater benefit. If associated with BMT that applying Islamic principles, the risk is relatively larger than conventional models. Therefore, they need guidance from the BMT itself so that the uncertainty will be decreased and their opportunities to use funds and to get profit are relatively larger.

4. Noninterest loans

One of the unique characteristic of Islamic financial institutions are not charging interest to their customers, both when using the funds or invest their funds in the BMT. Non-interest loans mean that BMT do not charge interest to the creditors and there was no agreement to pay interest to the depositors. Based on the results of the analysis factor, the total amount of Eigen values for this factor is 1,027 and the variance is 2,633. It means the contribution of this factor to the determinant of SMEs selecting financing through BMT was 2.63%. This suggests that the factor of no-interest loans only make a small contribution to the determination of SMEs choose financing through BMT in West Sumatra. Based on the results of AHP is obtained Eigen value is 0.090. This factor was the fourth most important factors for micro-entrepreneurs. This means that financial institutions that offer no interest is needed by micro-entrepreneurs. Islamic principles factor is one of factor that is considered by micro-entrepreneurs to choose the institution as a source of business financing. Therefore obedience BMT in applying Islamic principles is very important, so that, the presence is more utilized by micro-entrepreneurs.

5. Funding submission process

Another factor that is formed through analysis factor is the funding submission process. It is set by the management of BMT. This factor has two indicators, including the duration process of obtaining and the amount of financing is realized. Duration process of obtaining consider to the time spent by SMEs to get funds raised. Every businessman, including micro and small entrepreneurs, loan application process to be considered as related to the plan and the opportunities that will be achieved. While the amount of loan related to the difference between the actual payments that is proposed with the approval of funds by the management of BMT. Furthermore, based on the results of analysis factor, found Eigen values of funding submission process is 1.235 and the variance of 3,167. Means the contribution of factors funding submission process to deciding the choosing financing by SMEs through BMT was 3.17%. From that result can be seen that, factor funding submission process is quite important for customers. This indicates the need for management of BMT to pay attention to the funding submission process at BMT in West Sumatera. This means that customers always consider the duration process of realization and the amount of the loan approval by BMT management. Customers, who are applying for loans, are generally need and expect a quick process. Each submission must be accompanied by a plan for loan utilization. If approval is much smaller than the proposed limit, funding needs will not be met. This will determine the funding of SMEs utilizing the existing BMT loan from their region.

According to AHP result, we found the Eigen value for this factor is 0.085 and ranks fifth compared to other factors. That is a long process of credit application and financing realization is quite important for the micro-entrepreneurs in West Sumatera. These entrepreneurs require the financial institutions which is quicker to process their fund submission and approve the funds according to their needs. That is, small businesses do not require BMT with long bureaucratic process so that it works more quickly. This is understandable because the micro-entrepreneurs in general desperately need funds immediately. They generally cannot wait for a long time. The one of excellence of moneylenders in rural areas is their speed to lend money with the amount accordance with the demands of creditors. Therefore BMT need to adjust work processes to the needs of the community itself.

6. Training for customer

Training for customer is the effort of BMT management to foster of customers business to be more developed and profitable. This becomes very important in Islamic financial institutions, because of the

profit from micro and small entrepreneurs is crucial advantage of its financial institution itself. Conventional banks obtained their income from the interest rate charged from customers who borrow the funds, on the other hand, BMT actually getting revenue from the profits of its customers. Therefore, the development of business and the level of customer profits is very important for their survival. Factors training for customer is formed by two indicators, they are given guidance and continually of payment. If they are success in customer training and the SMEs getting the better profit, so their business will develop and continually of payment are guaranteed.

From the analysis factor, found the Eigen values for total customer training is 1139 with the variant 2,921. Means the contribution of this factor to the determinant selecting financing SMEs through BMT is 2.92%. These factors have contributed in ranks eleventh compared to other factors. This suggests that training customer to do their business have a relatively small contribution to the determination of SMEs choose BMT as the source of their funding. Furthermore, based on the results of AHP is found that Eigen value for this factor is 0.076 and if sorted then this factor ranks sixth compared to other factors. It can be concluded that customer training that done by BMT is consider in the selection of their BMT to finance their businesses. Based on observations and deep interviews that is done by researchers, found on the one hand, micro-entrepreneurs require more intensive training/coaching, but they do not realize it. This condition is due to their lack of knowledge in business, so they just rely on intuition in business.

7. Service Schedule

Long service indicates the load time of BMT every day. This is related to the availability for customer to access these microfinance institutions. The longer opening hours, the greater the chances of customers accessing the BMT. Based on the results of the analysis factor, found the amount of Eigen values of this factor is 1,191 and the variance as 3,055. Means the contribution of factors service schedule of BMT determine SMEs to choose financing through BMT was 3.05%. This factor has the third smallest contribution compared to the other factors. It means that this factor is important to be considered by BMT management in West Sumatera. Hence, the service schedule of BMT determines the customer to utilize funding from BMT in West Sumatera. The Eigen value for service schedule factor is 0.071 and this factor was ranked seventh. Based on the results of this analysis, it is known that service schedule that is related to operational time of BMT to be decisive for the customer, but it does not really matter when compared to other factors. One important difference between microfinance institutions and moneylenders in rural areas is the time of operation. Microfinance institution (including BMT) generally operate at certain hours, for example 8am to 17 pm. While the moneylenders operates whenever micro-entrepreneurs or people need them. It is means that service flexibility of moneylenders higher than BMT or other microfinance institutions.

8. Profit Sharing System

Baitul Maal wat Tamwil (BMT) is a microfinance institution that operates based on the concepts of Islamic sharia. Therefore, the same operational concepts with Islamic banks are currently being developed in Indonesia. The main difference is the segments and target market. BMT aims to help micro and small entrepreneurs in their operational area. As a microfinance institution with this concept, then the financing to customers based on the profit sharing system. Based on the data analysis for the results obtained that this system consists of four indicators, they are; profit sharing model, how to calculate the profit, how to share the profit, and the percentage for profit sharing. Based on the results of the factor analysis, the Eigen values for this factor is 6,985 with a variant of 17.91. Mean contribution of this factors for deciding SMEs choose financing through BMT is 17.91%. This factor has the largest contribution compared to other factors. This result shows that the level of contribution of these factors to the determination of SMEs choose financing through BMT in West Sumatera. This condition can be understood as profit sharing system is one characteristic of a financial institution that bases its operations on Islamic Shari'a. It is means that the implementation of the profit sharing system is one of the important factors that decisive a micro and small entrepreneurs to take advantage of the financing provided by BMT in West Sumatera. This condition also shows that the profit-sharing system is one characteristic that distinguishes Islamic financial institutions with the other microfinance institutions such as "*Lumbung Piti Negeri* (LPN)" or Credit Cooperation. If BMT is not implemented profit sharing system properly, the institution would lose its identity in the customer (MSEs) point of view.

However, based on the AHP results, Eigen value for this factor is 0.062. If it is sorted, profit sharing system factors is in ranked eighth. It is means that profit sharing system is determining SMEs choose

financing through BMT, but the order of importance is relatively low compared to other factors. This condition could be due to their lack of knowledge about profit sharing system. But it can also be caused SMEs think that profit sharing system is not more profitable than interest system in conventional financial institutions. Therefore, this information is very useful for the management of BMT to undertake intensive communication with existing micro-entrepreneurs in their working area, so that the existence of BMT can solve the financial problem of micro-entrepreneurs themselves.

9. Service Quality

BMT is a financial institution that provides services to customers, even in funding or lending. There is a rapid competition in microfinance institutions, so that service quality is often used as a source of competitive advantage. service quality is a product that the customer received from BMT. Therefore, service quality is perceived customer value of BMT in West Sumatera. More better of services quality will be provided the greater of perceived customer value of BMT itself. Thus it can be understood if the service quality is one of the critical factors for SMEs in choosing BMT as business financing.

Based on the results of factor analysis, found that Eigen values for this factor is 2.165 and the variance is 5.55. Mean contribution of this factors for deciding SMEs choose financing through BMT is 5.55%. These factors have contributed in third greatest ranks compared to other factors. This shows the level of the contribution from these factors to the determination of SMEs choose financing through BMT in West Sumatera. This condition can be understood as the service quality is an important part for the customer. When customers come to BMT even to get funds or saving, then they will feel the service from BMT employees. Therefore the service quality is one of the products. While based on AHP results, it provides the Eigen value of 0.06, so, this factor was the rank ninth out of twelve factors were formed. It can be concluded that the service quality determines micro entrepreneur use financing that is available in BMT. It means that in comparison with the installments, repayment methods as well as the risks and benefits, service quality is less important according to the customer point of views.

10. Proximity to customers

Proximity to customers showed a good relationship and intimacy between the management and employees of BMT with their customers. It means that the more BMT getting close to its customers, the more intertwined relationship, friendship, communication and understanding between them. Based on the analysis factors, this factor consists of several indicators, they are; believe in BMT management, friendship attitude of employees, employee friendliness, and ease of contact employees. Based on factor analysis found that the Eigen values for this factor is 2.63 and variance is 6.75. Means the contribution of this factors determinant SMEs in selecting financing through BMT is 6.75 %. These factors have contributed in second greatest ranks compared to other factors. This shows the contribution of these factors to the determination of SMEs choose financing through BMT in West Sumatera. This condition can be understood as a rural community in West Sumatera extremely high levels of social cohesion among members of the community, so they really respect the employees who are friendly, caring, friendly, honest and easily contactable. This condition indicates the importance of BMT employees to be a friendly, trustworthy, friendly and easily contactable. The results of this study can be understood because the Minangkabau society, especially in rural shows an attitude like that, so they are also very appreciative of the employees of financial institutions in accordance with the customs of the community embraced. This information provides an overview to the management of BMT for recruiting friendly, kind, honest and easily contactable employee. Such values should be imparted to the employees and the culture of the BMT itself.

Based on the results of the AHP analysis shows that the proximity to customers has Eigen value of 0.059, so if it is sorted this factor is on the order of ten. From the results of this study concluded that micro-entrepreneurs in rural noticed the proximity shown with believe in BMT management, friendly attitude of employees, employee friendliness and easily contavtable them. However, when compared to the level of importance with the other factors, according to small entrepreneurs, they are more concerned installments, repayment methods, as well as the risks and benefits that they receive. This indicates that for micro entrepreneurs installment is more important than psychological problems. It is means that for those more rational than emotional decisive in selecting the financing of BMT. This is certainly very valuable information for BMT management in building real relationships with customers or potential customers.

11. Customer Cost

Every customer who makes a transaction with BMT, even on financing or savings activities, they will always pay some costs. From the results of factor analysis show that the cost is made up of the administrative cost. The cost will be included customers administrative costs, time, effort and costs incurred when the customer went to BMT. Therefore the cost that they do tend to determine the customers behavior in choosing BMT as a source of financing their businesses. Based on the results of the factor analysis, found Eigen values for this factor is 2,054 and the variance is 5.27. Means the contribution of this factors determinant SMEs in selecting financing through BMT is 5.27%. This factor has 4th largest contribution compared to other factors. Seen from its contributions, so this factor is important to be considered by BMT management in West Sumatra. It is means that customers always consider the administrative costs and the location of BMT itself. Most of the customers does not have vehicle and it is also limited public transportation in rural areas where the BMT locate in, so it is naturally for SMEs to consider the location. Furthermore, based on the results of analysis AHP, It is obtained Eigen value as 0.051. compared to other factors, it is known that factors customer cost has number eleventh in ranks. The small Eigen values indicate that customer cost (administrative costs and location) to be decisive for them to use funds from BMT, but these factors are less important for them compared to other factors.

12. Services Charge

The service charge is a fifth factor which is formed through factor analysis performed. Service charge incurred regarding small businesses to obtain funding from BMT in West Sumatra. Such costs include; fundraising, facility fees, and other fees charged to customers when the disbursement of funds. Besides that, it also includes the costs incurred in the settlement of funds by the customers. The requirement is intended requirements that must be met by the customer when applying funds, such as ID cards, family cards, business development reports, projected funds utilization etc.

Based on the results of the factor analysis, found the amount of Eigen values for this factor is 1,892 and the variance is 4.85. Means the contribution of this factors determinant SMEs in selecting financing through BMT is 4.85%. Based on its contribution, this factor has 4th largest in rank compared to other factors. Seen from its contributions, so this factor is important to be considered by BMT management in West Sumatra. This means that customers always consider the services charge when doing transactions with BMT. Based on deep interviews, many small business owners find difficulties to meet the requirements that is demanded to the customers, so they cannot get funding from BMT itself. This indicates that SMEs assess other factors more important than the services charge spend when using funding from BMT. More barriers that is faced by small entrepreneurs are the requirements that is demanded by BMT. Therefore, to enhance the role of BMT in helping to finance micro and small businesses in West Sumatera, It is necessary to simplify the requirements. Many of their complaints about the records that must be good, because generally SMEs do not have a good accounting record for their business.

Based on the results of AHP, it is obtained Eigen value of 0.040. Eigenvalues for these factors is the smallest compared to other formed factors. This gives an indication that services charge determine of micro entrepreneurs to finance their businesses through BMT. However, if it is compared with other factors, the services charge is less important for micro-entrepreneurs in West Sumatera. Based on the analysis above it can be concluded that micro entrepreneurs place great importance on installment/repayment, repayment methods, and the risks and benefits. The micro-entrepreneurs are less concerned with the cost and emotional when compared to repayment as well as the risks and benefits they receive.

CONCLUSION

Based on this research can be concluded as follows:

1. Based on the results of factor analysis, it is formed 12 determinants factor of SMEs choose financing through Baitul Maal wat tamwil (BMT) in West Sumatra. They are; Profit sharing system, proximity to customers, service quality, customer cost, service charge, risks and benefits, repayment methods, installment/repayment, funding submission process, service schedule, customer training, and noninterest loans.

2. The total variance of the overall factors is 63.17 or 63.17% and all factors were contributing 36.83% to determine the SMEs' decision in choosing financing through BMT in West Sumatera. There are other factors that contribute to the selection of the BMT.
3. Based on Analytical Hierarchy Process (AHP) that the order of importance of each factor is formed are as follows; installment/repayment, repayment methods, risks and benefits, noninterest loans, funding submission process, customer training, service schedule, profit-sharing system, services quality, proximity to customers, customer cost, and service charges.
4. Micro-entrepreneurs who become customers or potential customers of BMT tend to give priority consideration to repayment than the cost they incurred to obtain funds. For them, repayment method, repayment period and the amount is more important than the cost incurred to obtain these funds.

Suggestion

Based on the results of the study can be recommended to the BMT management as follows:

1. Service quality can be used as a competitive advantage of BMT compared to other microfinance institutions. Therefore it is needed front line employees who are friendly, honest, friendly and easily contactable. To obtain such employees must be started from the recruitment of employees who have such talent. Furthermore, a rewards system is needed to support the development of a quality care culture in BMT itself.
2. Baitul Maal wat Tanwil (BMT) is the micro and small financial institutions that serve to help finance micro and small enterprises in their operational area. To make they are willing to take advantage of this institution voluntarily then BMT must continually implement Islamic principles in its operations.
3. Therefore, micro-entrepreneurs who become customers or potential customers of BMT not really understand about Islamic system implemented, it would require a more vigorous socialization so that all entrepreneurs can differentiate Islamic and conventional systems, which is known in the community.
4. Baitul Maal wat-Tanwil (BMT) should fix the specified repayment system. For example, regarding the mode of payment, the amount of the repayment, long repayment period and repayment calculation. It is necessary for micro-entrepreneurs to get greater benefits than the conventional method which is executed during the time.

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